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with Shopping Center Age
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CSA Exclusive Research

How much does modeling increase sales?

TWENTY DOLLARS A YEAR (USA)

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Of the survey respondents, 56% assign remodeling projects to an in-house department.

COVER STORY

Store remodeling: How profitable can it be?

Chain Store Age Executive's survey shows a 17% profit increase and a 33% increase in sales after remodeling

Retail chains are spending an average of \$16.43 a square foot to update their shopworn stores with a majority reporting an average increase of 17% in profits per square foot and 33% in sales after remodeling.

These figures are disclosed in an exclusive survey by *Chain Store Age Executive* of 120 chains representing

a cross section of discount/mass merchandise, department, supermarket and drug stores with an average annual volume of \$818 million per chain.

The survey comes at a time when many chains are directing a substantial portion of their capital expense budgets to remodeling existing

stores, rather than building or opening new units. The reasons given are simply that it's easier and faster to increase sales and profits per square foot on better utilization of existing resources than with new units.

Chains such as Sears, Roebuck, K mart and J. C. Penney are in the middle of long-range remodeling programs in attempts to increase market share and profits. For instance, the lion's share of K mart's 1984 capital expenditure budget of approximately \$400 million will be devoted to remodeling existing stores.

The survey asks the chains whether they are engaged in extensive or minor remodeling of their stores, asking them to scale it from five (major) to one (minor). It then matches up the costs of remodeling with whether it is a major or light redo and finds that on average, major remodeling projects cost \$18.80 a square foot, more than \$5 over the \$13.23 a square foot for a light remodeling job.

By category, supermarkets average \$23.30 per square foot for major remodeling jobs and \$19.56 a square foot for light redos; department stores average \$21.72 for majors and \$16.04 for minors; discount/mass merchandise, \$14.30 for majors and \$10.40 for minors, and drug, \$13.18 for majors and \$9.92 for minors.

Although remodeling activity doesn't vary substantially by type of chain, supermarket and department stores engage in slightly more extensive remodeling than do their discount and drug counterparts. Again, using five as extensive and one as minor, the list includes: supermarket (4.1), department (4), discount/mass merchandise (3.7) and drug (3.4).

Supermarkets spend the most on remodeling, according to the survey, averaging \$22.14 a square foot, followed by department stores (\$19.57), discount/mass merchandisers (\$12.92) and drug stores (\$11.17).

The largest supermarket group spends between \$26 and \$30 a square foot. The largest single department store classification spends between \$16 and \$20 a square foot. [J. C. Penney spends between \$20 and \$30 a square foot for remodeling (*Chain Store Age Executive*, September 1983), or an estimated \$2 million to \$3 million a store.]

The largest single drug store category is between \$5 and \$15 a square

Remodeling cost per square foot



To remodel a store in reasonably good condition would total approximately \$170,000, which is about \$11.33 a square foot.
—Jim Fowler, assistant vp-real estate, Perry Drug Stores

	Total	Disc./Mass Merchandiser	Dept.	Super.	Drug
Less than \$5	10%	20%	3%	7%	10%
\$5-\$10	24	30	10	10	47
\$11-\$15	15	17	20	3	20
\$16-\$20	21	13	33	27	10
\$21-\$25	8	3	7	17	3
\$26-\$30	13	3	10	30	7
\$31-\$35	1	—	3	—	—
\$36-\$40	2	—	7	—	—
\$41-\$50	3	7	3	—	—
\$51+	1	—	—	3	—
Don't know/ No answer	4	7	3	3	3

Source: Lebhar-Friedman research



Remodeling a Marshalls store runs "less than \$10 a square foot on average" vs. \$14 for "complete transformations."
—Dennis St. John, vp-facilities, Marshalls

foot for construction. Asked about this, Jim Fowler, assistant vp-real estate, Perry Drug Stores, says that for leasehold improvements alone, the bills come to \$11.33 a square foot.

The return-on-investment for remodeling is best for the discount/mass merchandiser with an average increase in profits per square foot of 28% on a sales gain of 30%, according to the survey. This is followed by department stores with a 17.5% average profit increase per square foot on a 25.4% average sales increase. Supermarkets show an average profit increase per square foot of 13.4% on a 52% average sales increase, and drug chains show an average profit increase of 11% on a sales increase of 23% per square foot.

Other data revealed in the survey includes:

- Average lifespan of physical support systems, such as signage and fixtures, is 9.5 years, while ceilings have an average life of 13.5 years.
- Potential for increasing sales is the reason given by 90% of the respondents as the major reason for remodeling, while 79% cite the potential of increasing market share, and 70% say they are trying to attract a broader customer base.
- A whopping 97% of the stores are kept open during a renovation.
- An average of 35% say that they enjoy increased business during a remodel; 36% say there is little or no impact, while only 16% say there is a falloff in business.
- A total of 56% of the chains use in-house facilities to remodel their stores; 12% hire outside companies,

and 33% use a combination of both.

Much of today's remodeling in retailing currently under way or on the planning boards revolves around what retailers call "redeployment of assets," or the reallocation of space within stores to make room for new merchandise offerings, or to eliminate product categories no longer in demand by consumers. Add to this the fact that many chains are closing unprofitable stores in an attempt to improve their profits.

"Distinctive decor enhances a store's image and builds traffic": 89% of the respondents agree

The decision to remodel, according to the survey, originates from a variety of sources. While no one input governs the decision, influences arising from within the store are more prominent than external sources of information or events.

Appearance, updating and expansion are the major reasons given by the respondents for remodeling (41%), while concern with what the competition is doing ranks fairly low (23%). Business projections, ROI and potential sales rank second (35%), and surveys of the needs of the stores and/or departments rank third (25%). Trends in merchandise, the marketplace and customer demand is the least important reason (15%).

Department stores are least inclined to examine the overall physical condition of their stores (10%), yet

are more likely to have the decision originate with management (20%). Drug chains are the most inclined to evaluate the overall appearance (63%), but only 3% rely on management decisions for remodeling projects.

Discount/mass merchandisers, on the other hand, direct more attention toward competitive activity as a basis for remodeling (40%). Supermarkets put a lot of emphasis on appearance (50%).

A significantly higher proportion of department stores (77%) and discount/mass merchandisers (70%) than their supermarket (53%) and drug (43%) counterparts consider "creating a new look" as an "extremely/very important" inducement to remodel.

Consistent with the relatively low utilization of consumer demand (15%) as a determinant of remodeling need, the majority of respondents (62%) do not formally elicit the views of consumers prior to remodeling. Only the supermarket category shows that 50% do consumer research before remodeling. The others average 70% against using this device.

Only nine of the 45 respondents whose chains conduct consumer research prior to remodeling are able to furnish an estimate of the costs of the research. On average, consumer research expenditures total \$11,700. The majority of the stores that did consumer research delegate this responsibility to an internal research department.

Ceilings have the greatest long-

evity among signage, fixtures and ceilings, according to the survey, lasting an average of 13.5 years before replacement is required. Discount/mass merchandisers report ceilings last 14.5 years; department stores, 14.2 years; drug stores, 13.2 years, and supermarkets, 12.2 years.

The lifespan of signs ranges from 10.9 years for drug chains to 10.6 years for supermarkets, to 10 years for discount/mass merchandisers to seven years for department stores.

Fixtures have an 11.1-year lifespan for drug chains, 9.9 years for supermarkets, 9.6 years for discount/mass merchandisers, and only 7.5 years for department stores. In an earlier poll (*Chain Store Age Executive*, March 1984), retailers said they averaged six years between overall store remodelings.

Store planners say they are favorably disposed toward remodeling as a viable means of enhancing store image and generating consumer traffic, but many say that attractive store design is of lesser importance to consumers than other attributes, such as low prices.

Nearly nine in 10 respondents "agree strongly/somewhat" with the contention that "distinctive decor enhances a store's image and builds traffic" (89%). At the same time, 52% of the store planners say that consumers would rather shop at stores featuring less ambience and lower prices than expensively decorated, higher-priced stores.

As might be expected, while 90% of the discount/mass merchandisers note that distinctive decor enhances a store's image and builds traffic, 73% say that consumers today would rather shop at stores featuring less ambience and lower prices than expensively decorated, higher-priced stores.

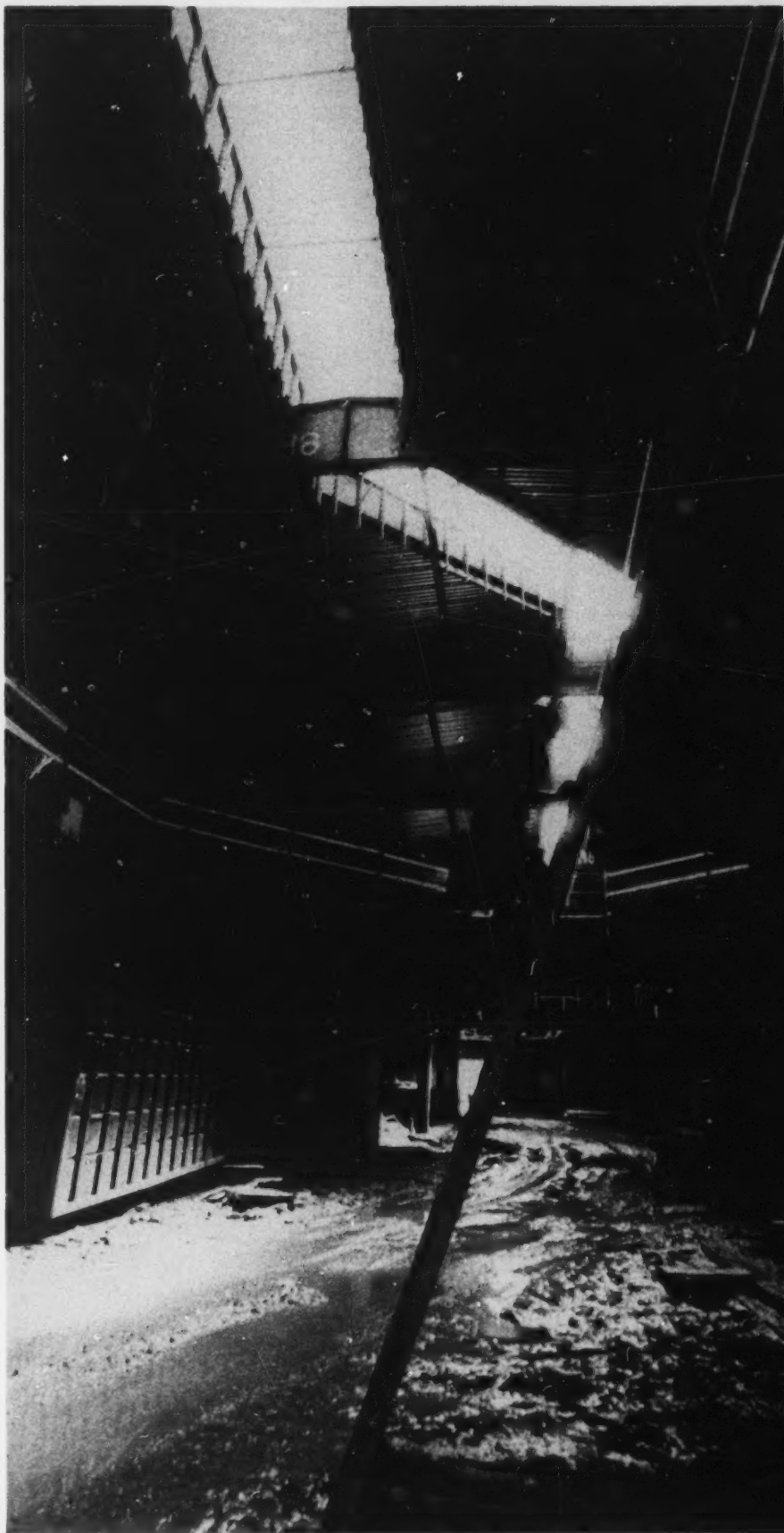
Also, 13% of the discount/mass merchandisers say that store remodeling is expensive and doesn't increase business appreciably.

In addition, 53% of the drug chains, 50% of the supermarkets and 30% of the department stores stress price over ambience in getting new business.

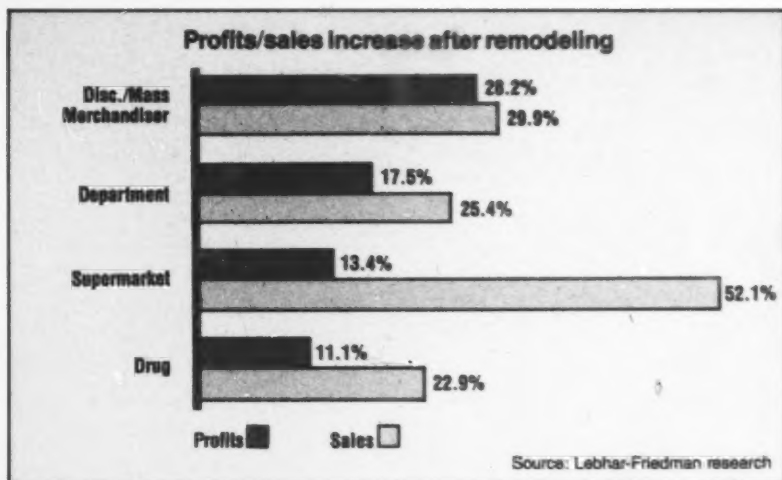
On the subject of remodeling over a period of time, 80% of the supermarkets say remodeling is done all at one time, compared with 67% of drug chains, 40% of discount/mass merchandisers, and 23% of department stores.

Not unexpectedly, 73% of the department stores remodel in phases over time, compared with 60% of discount/mass merchandisers, 33% of drug chains and 20% of supermarkets.

The study shows that 43% of the



On average, major remodeling projects cost \$18.80 a square foot; minor projects average \$13.23.



department stores say that remodeling attracts customers and that business increases during the redo, compared with 37% each for discount/mass merchandisers and supermarkets and 24% of drug chains. On the other side of the coin, 34% of the drug chains say that sales drop during a remodel, compared with 11% for supermarkets and 10% each for discount/mass merchandisers and department stores.

While 33% of the stores report using both internal and external facilities, the majority of respondents surveyed (56%) assign the remodeling task to an in-house department only. Approximately one in 10 respondents

(12%) rely upon outside firms for remodeling.

Discount/mass merchandisers (70%) and drug stores (70%) are significantly more likely than department stores (37%) to use an in-house department exclusively for remodeling.

Department stores utilize both internal and external remodeling facilities to a greater extent than their drug and discount counterparts. In fact, a significantly higher proportion of department stores (53%) divide the remodeling task between internal and external facilities than do drug (23%) and discount/mass merchandise (17%) stores.

and most housewares while expanding plumbing, electrical and builders hardware departments and adding millwork. The number of sku's will be reduced in each to give more space to the highlighted merchandise.

Gondolas will be heightened from 5 ft. to 8 ft. in the new plan, and lighting will be changed to expose "one large sales floor rather than departments." Netzer explained that the double tube don system of fluorescent lights will extend throughout the store.

The outside lumber and nursery area (8,000 to 10,000 sq. ft.) will be enclosed in a glass or plexiglass structure at each store. The HVAC system will remain the same and will not be extended to the enclosed lumber and nursery department. "We have a complete energy management system, and it will not be affected by the remodeling," says Netzer.

Depending on local conditions some stores will get a new drop-in tile ceiling. The manufacturer has not been selected yet. Floors will remain the current vinyl asbestos tile, and the office area of each store is not being redone.

Bill Boston, vp Pay'n Save and gmm Ernst, says that the remodel is the most important change at Ernst since the Pay'n Save company acquired the home center chain in 1960. "When we're done with this, we don't think we are going to have a look that is an imitation of anybody else," he says. "We are not going to be a no-frills warehouse and we are not going to have a department store look that some people think our stores have."

One major aisle will be added to give access to key departments at each store, and walls that separated departments will be removed to give the interiors "more of an open look," says Boston.

The design and planogram for the stores is being created in-house by Ernst. With 69 stores at present and one store slated to open in 1984, the store planning team is facing "probably 25 different physical configurations," according to Boston. Each store's design is being tackled individually.

In the revamping process, Ernst is installing a "demonstration house" in its lumber department that will "show the products we carry," says Boston. Another new feature in Ernst units will be information booths at front-end checkout stands, plumbing and electrical, paint, lumber/building materials and lawn and garden departments. In total these information areas will not take up more than a couple of hundred square feet per store, according to Netzer.

REMODEL

Ernst launches revamp plan

Ernst Home Centers, a 69-unit, Seattle-based chain operating in the Northwest, is embarking this month on a \$13.6 million remodeling project to refurbish every store in the company.

Vern Netzer, vp-real estate and construction, says that the retrofit will begin in Washington state where 44 of the chain's stores are located. The entire program should take approximately 2½ years to complete, according to Netzer. He estimates that the payback on this investment averaging \$200,000 per 35,000-sq.-ft. store, roughly \$5 a square foot, will take about the same length of time.

"Most of the money will be spent on labor," says Netzer, who explains that the stores will remain open during the program and most of the work will be done at night.

The planogram for the new stores will emphasize basic product categories by eliminating sporting goods



Payback on Ernst's refurbishing investment should take about 2½ years.